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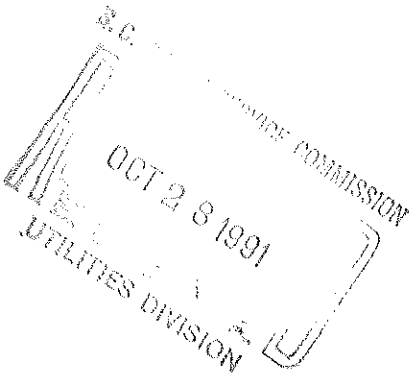

October 24, 1991

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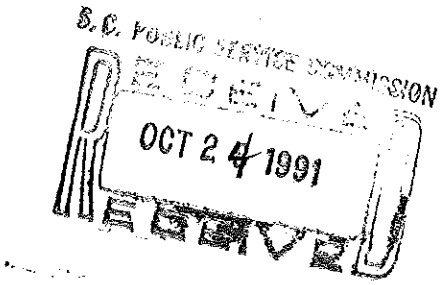

Honorable Charles W. Ballentine
Executive Director
South Carolina Public Service Commission
111 Doctors Circle
Post Office Drawer 11649
Columbia, South Carolina 29202

Re: Duke Power Company
Docket No. 91-216-E
Our File No. 6164.2

Dear Mr. Ballentine:

Enclosed please find the original and ten (10) copies of the Proposed Findings on behalf of the Southe Carolina Energy Users Committee together with proof of service.

If anything further is needed, please advise.

Very truly yours,

Arthur G. Fusco

AGF:cmc

Enclosures

BEFORE
THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 91-216-E

RE: Application of Duke Power Company for an increase in electric rates and charges	)))	PROPOSED FINDINGS OF THE SOUTH CAROLINA ENERGY USERS COMMITTEE

The South Carolina Energy Users Committee (SCEUC) is an association consisting of over sixty large consumers of energy which are engaged in various manufacturing enterprises throughout the state. SCEUC member companies operate more than 100 plant sites within Duke Power Company's service territory. These industrial customers purchase annually from Duke almost five (5) billion KWHs. This is 27% of all KWH sales by Duke in South Carolina. SCEUC member companies' electric bills from Duke approximate $200 million annually.

The SCEUC hereby respectfully submits its proposed findings pursuant to Commission direction and S. C. Code Ann. Section 1-23-350 (1986).

FINDINGS

1. The Commission finds that the Company's electric rates should be based on the cost of providing service to each customer class.

2. The Commission finds that the Company's summer peak responsibility cost-of-service study is appropriate for use in this proceeding, as modified.

3. The Commission finds that the Company's current rates are not adequately cost-based.

4. The Commission finds that the rate increase granted the Company herein should be distributed to classes in a manner that will bring customer classes 25% closer to the "band of reasonableness" (the system average rate of return).

5. The Commission finds that rates for the Company's industrial customers should be based on per unit costs.

6. The Commission finds that the rate increase granted the Company herein should not exceed the industrial class average of 5.96% when applied to Rate I, Rate PG, Rate GA and Rate IT.

7. The Commission finds that the Company should perform cost-of service studies with respect to each industrial customer rate schedule for review during the next rate proceeding.

8. The Commission finds that the Company's Interruptible Service Rider IS credit be increased to 50% of actual demand costs, $7.50/kw.

DISCUSSION AND CONCLUSIONS

A.

In this proceeding the Company proposes the use of the summer coincident peak cost allocation methodology utilized in the Company's cost of service study. Duke witness Denton, Tr. Vol. 2, pp. 81, 91-92, 98,100, 103-104. The Commission has approved the use of the summer C P Method for use by the Company in rate

proceedings since 1970. Duke witness Denton, Tr. Vol. 2, page 91. The cost of service study performed by the Company appears in the record as Hearing Exhibit No. 3.

The Commission Staff reviewed Company's cost of service studies identified as DARES 1990-16, 17, 18 and was generally in agreement. Staff witness Watts, Tr. Vol. 5, pp. 233-235.

> The review by the Staff of the development of allocation factors, the reasoning behind that development and the application of the factors to the revenues, the operating expenses and the rate base has resulted in Staff's recommendation to the Commission that these items were reasonably spread except in two instances. Tr. Vol. 5 at 235.

Duke's cost of service studies were also reviewed by SCEUC witness Phillips. Phillips concurred that the most appropriate cost of service for use in this proceeding is the summer coincident peak responsibility method consistent with past Commission practice. Tr. Vol. 4, p. 105.

Phillips' cost of service analysis included: load factor; system generation; and allocation of production plant.

B.

The rate-making process has three steps. First, the Commission must determine the utility's total revenue requirement. Second, the Commission must determine how any increase in revenues is to be distributed among the various customer classes. A determination of how many dollars of revenue should be produced by each class is essential for obtaining the appropriate level of rates. Finally, individual tariffs must be designed to produce the

required amount of revenues for each class of service and to reflect the cost of serving customers within the class. SCEUC takes the position that a major factor at each step is cost of service. The Commission agrees.

The Staff pursuant to a decision of our Supreme Court recommends removal of Franchise Fees/Municipal License Fees as part of the cost of service study. The Commission is bound by our Supreme Court's decision in City of Spartanburg v. Public Service Commission of South Carolina, 281 S.C. 223, 314 S.E. 2d 599 (1984) and, therefore, this recommendation of the Staff is approved and the cost of service study so modified.

The Staff also recommends that the Minimum System concept be eliminated as part of the cost of service study. Duke witness Denton testified that the cost of service study included a customer component. Tr. Vol. 2, p. 103. Mr. Denton also felt that the cost of service study was prepared in accordance with the Electric Utility Cost Allocation Manual developed by NARUC. Id.

SCEUC witness Phillips, while generally supportive of the cost of service study, disagreed with this Staff recommendation based on authorities, engineering practice and precedent. Tr. Vol. 4, pp. 138-139. Staff also relies on DARES 1990-30,31. This is work product and does not appear in the record.

Based on the concerns raised about this adjustment, the Commission has decided to defer a decision on this recommendation. The Commission will conduct a full review of this issue in Duke's next rate proceeding.

c.

The Commission has previously herein addressed the issue of the utility's total revenue requirement. The Commission now turns to the issue of distributions among customer classes.

The cost-of-service study is used to allocate the cost of service among customer classes. The cost-of-service study shows how each customer class contributes to the total system cost.

> For example, when a class produces the same rate of return as the total system, it is returning to the utility revenues just sufficient to cover the costs incurred in serving it (including a reasonable authorized return on investment). If a class produces a below-average rate of return, it may be concluded that the revenues are insufficient to cover all relevant costs. On the other hand, if a class produces a rate of return above the average, it is paying revenues sufficient to cover the cost attributable to it and, in addition, is paying part of the cost attributable to other classes who produce a below-average rate of return. The class cost-of-service study is important, because it show the class revenue requirement, as well as the rate of return under current and any proposed rates. SCEUC witness Phillips, Tr. Vol. 4, pp. 103-104.

Duke witness Denton appropriately described the "band of reasonableness":

> Rate design is not a science and, as we try and allocate costs to the various classes of customers, we're dealing with a moving target. The band of reasonableness is a margin plus or minus 10 percent around the average rate of return for retail customers, and we attempt to design rates which, over the long haul, will attempt to have all customer classes operate within that band of reasonableness. That has been a difficult chore over the last ten years. Tr. Vol. 2, pp. 103-104.

SCEUC witness Phillips pointed out that Duke's industrial customers as a class are being overcharged by $36 million. Tr. Vol. 4, pp. 97, 118-120. This was uncontradicted on a cost of service basis and is clearly shown in the record on Hearing Exhibit No. 35.

> The distribution of the increase as proposed by the Company is based on their stated goal of moving class rates of return towards so-called "band of reasonableness." . . . The "band of reasonableness" as used by Duke, dilutes the cost-of-service standard and allows a 20% variation from the system average rate of return since some classes can be 10% above the average while other classes can be 10% below the average. SCEUC witness Phillips, Tr. Vol. 4, p. 118.
>
> A negative revenue subsidy indicates the amount by which a class is paying rates below cost of service. A positive revenue subsidy indicates the amount that a class is paying in excess of cost of service. For example, the residential class is now paying rates that are $41 million below cost, while the industrial class is presently paying rates that are $36 million greater than cost. Tr. Vol. 4, p. 119.

The Commission is of the opinion that the distribution of this revenue increase should be apportioned to move classes toward the band of reasonableness. SCEUC proposes a 25% reduction in industrial subsidy in this case. The Commission adopts this proposal and believes this will assist customers in receiving better price signals on their utility bills. More than 25% is too much movement toward costs in one proceeding.

D.

Cost based rates arising from a proper cost-of-service study produce equity, engineering efficiency, conservation and

stability. If each customer (as may be practical) pays what it costs the utility to serve, no more and no less, equity is achieved. Cost-minimization is achieved with appropriate rates signaling price so that costs are properly reflected in the energy, demand and customer components of schedules. This incentive causes customers to minimize costs, which in turn minimizes the utility's costs. When rates are based on relevant, costs customers receive a proper price signal. This encourages conservation and discourages waste and inefficiency.

SCEUC proposes that Rate PG, Rate I, Rate IT and Rate GA should be increased by no more than the industrial class increase. The Commission agrees that the proposed rate design results in higher returns on these rate schedules than the 5.96% industrial average. Rate schedules PG, I, IT and GA will not be increased above the industrial average. Duke's rate design should reflect unit costs for demand, energy and customer components. They do not and hereafter will. This same rationale applies to Rate OPT as illustrated by SCEUC witness Phillips, Tr. Vol. 4, p. 125. Duke's proposal to limit on-peak hours to an 8 hour period to coincide with a typical industrial shift is reasonable. Rate OPT - Optional Power Service, Time of Day effects 70% of industrial customers. This is indeed significant. The Commission approves a rate design for this schedule consistent with the recommendations of SCEUC in this proceeding.

SCEUC raises an important rate design issue with respect to Duke's interruptible rate:

> When a utility has the right to curtail, or interrupt, service, it does not have to provide capacity to serve that load. Many utilities offer a discount equal to one-half the demand charge that would otherwise be applicable for such service. Since there are no production-related demand costs associated with this service, this has the effect of providing one-half the savings to the customer whose service is interrupted and one-half to all other customers.
>
> The demand cost in Duke's Large General Service Time-of-Use industrial unit cost study is approximately $1500/KW. The 50/50 sharing concept would result in a discount of about $7.50/KW. SCEUC witness Phillips Tr. Vol. 4, p. 129.

The Commission has reviewed this position on the record in this case and concludes that SCEUC's proposal is fair and reasonable and should be approved.

Respectfully submitted,

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By: _____
Arthur G. Fusco

Attorney for the South Carolina
Energy Users Committee

Columbia, South Carolina
October 24, 1991

CERTIFICATE OF SERVICE

I, Cherise M. Cochran, do hereby certify that I caused the within Proposed Findings of the South Carolina Energy Users Committee to be served upon all parties of record, by having same placed, first class postage affixed thereto, in the United States Mail, this 24th day of October, 1991, and addressed as follows:

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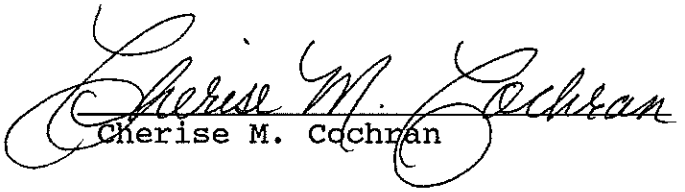

Columbia, South Carolina
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